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Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 FEA-01 AGRE-00 CEA-01 CIAE-00

COME-00 DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-03

LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01

XMB-02 OPIC-03 SIL-01 /107 W
---------- 011476
R 291747Z OCT 76
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 7082
INFO AMEMBASSY BRUSSELS
AMEMBASSY BONN
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
USMISSION EC BRUSSELS
RUFNPSUA USMISSION OECD PARIS 3724
USDEL MTN GENEVA

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PASS AGRICULTURE

E.O. 11&52: N/A
TAGS: EAGR UK
SUBJECT: BACKGROUND TO UK INTRANSIGERCE OVER GREER POURD DEVALUATION AND EC COMMISSION PROPOSALS ON MILK SURPLUS

BEGIN SUMMARY: HMG STAND IN AGAIN FENDING OFF PRESSURE FOR GREEN POUND DEVALUATION AT EC FINANCE AND AGRICULTURE MINISTERS' MEETING, LUXEMBOURG, OCTOBER 26-27 WAS FORE-
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SHADOWED IN AGRICULTURE MINISTER SILKIN'S SPEECH TO HOUSE

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OF COMMONS ON OCTOBER 22. IN A DEBATE ON AGRICULTURE, SILKIN VERY FORCIBLY STATED UK DETERMIRATION TO KEEP GREEN POUND STATUS QUO. HIS REMARKS ALSO REVEALED HIGHLY NEGATIVE BRITISH ATTITUDE TO MANY OTHER EC COMMISSION PROPOSALS, PARTICULARLY ON MILK. AND GAVE STRONG IMPRESSION THAT UK CONTINUES TO FAVOUR MUCH GREATER SCOPE FOR NATIONAL AIDS TO SUIT NATIONAL PROBLEMS. ERD SUMMARY.

1. THE EC FINANCE AND AGRICULTURE MINISTERS' MEETING IN LUXEMBOURG, OCTOBER 26-27 AT WHICH HMG SUCCESSFULLY FENDED OFF RENEWED PRESSURE FOR GREEN POUND DEVALUATIOR RECEIVED PROMINENT AND WIDE COVERAGE IN BRITISH MEDIA. EVEN INCLUDING POPULAR PRESS. TERM "GREER POUND" MUST NOW BE FAMILIAR TO CONSIDERABLE PROPORTION OF POPULATION EVEN IF THEY DO NOT UNDERSTAND IT.

2. IN HOUSE OF COMMORS DEBATE OR AGRICULTURE ON OCTOBER 22, MINISTER OF AGRICULTURE, JOHR SILKIN, IR HIS FIRST MAJOR SPEECH BEFORE THE HOUSE SINCE HIS APPOIRTMENT. TOOK

A STRONG STAND NOT ONLY AGAINST PRESSURE TO DEVALUE THE GREEN POUND BUT ALSO AGAINST SEVERAL OTHER PROPOSALS NOW BEING PUT FORWARD BY COMMISSION, ESPECIALLY IN THE MILK SECTOR. ON THE GREEN POUND, SILKIN SAID. "IT IS THE MEMBER STATE MOST CONCERNED THAT SHOULD HAVE THE FINAL DECISION ON WHETHER A PROPOSAL TO CHARGE ITS GREER CURRENCY S.OULD BE ACCEPTED.....WE KEEP IT URDER REVIEW AND CHANGE IT WHEN WE FEEL THAT IT IS IN THE NATIONAL INTEREST.....THE NEED IS TO DETERMINE WITH RESPECT TO OURGREER POUND RATE WHERE THE BALANCE OF INTEREST LIES AT ANY PARTICULAR TIME - NOT ONLY THE BALANCE OF NATIONAL INTEREST. BUT THE BALANCE BETWEEN THE PRODUCER AND THE CONSUMER. BECAUSE THEY ARE INTER-CONNECTED MUCH MORE CLOSELY THAN EITHER OF THEM SOMETIMES SAYS."

3. SILKIR ASKED THE HOUSE. DOES THE GREEN POUND DEVALUA-TION NECESSARILY HELP ALL SECTORS OF AGRICULTURE. HE SAID IT PUTS UP THE PRICE OF CEREALS BUT IT DOES NOT
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AUTOMATICALLY PUT UP THE PRICES OF MILK OR BEEF. HE THEN DREW ATTENTION TO THE NATIONAL AIDS ANROUNCED ON OCTOBER 5 RAISING THE MILK PRICE AND THE FAT SHEEP GUARA-NTEE ALONG WITH HIGHER CAPITAL GRARTS, IMPLYING THAT NATIONAL AIDS OF THIS TYPE WERE MUCH BETTER FOR BOTH BRITISS CONSUMERS AND FARMERS THAN A GREEN POUND DEVALUA-TION. HE SAID' "WHAT I AM CERTAIN OF IS THAT TO TALK IN TERMS OF EQUATING THE GREEN POUND WITH THE MARKET POUND,

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AS THOUGH THIS WERE AN 11TH COMMARDMENT. WOULD
ESTROY THE ECONOMY OF THIS COUNTRY AND PROBABLY DESTROY
AGRICULTURE AS WELL."

4. ELSEWHERE IN HIS SPEECH. MINISTER SILKIR STEPPED FROM
ONE COMMISSION OROPOSAL TO AROYHER ON INDIVIDUAL
COMMODITY MEASURES, VIRTUALLY GIVING THE THUMBS DOWN TO
EACH ONE IR TURR. HE SAID THE PROPOSAL FOR A TAX ON
VEGETABLE OILS WAS UNACCEPTABLE ARD HE REGARDED IT AS
HIS DUTY TO REJECT IT. IT WOULD RAISE MARGARINE
PRICES BY BETWEEN 2.5 AND 3.5 PERCENT, INCREASE THE
PRICE OF COOKING OILS AND ULTIMATELY THE PRICES OF
HUNDREDS OF PRODUCTS. IT WOULDE EXCEEDINGLY
DIFFICULT TO ADMINISTER AND WOULD NOT. HE THOUGHT, HAVE
ANY MORE THAN A FRACTIONAL EFFECT ON THE DEMAND FOR MILK

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PRODUCTS.

5. ON THE PROPOSAL TO SUSPERD INVESTMENT AIDS TO THE MILK SECTOR IN ORDER TO REDUCE THE EC CAPACITY TO PRODUCE AND PROCESS MILK PRODUCTS. HE SAID THE EFFECT WOULD BE CONTRARY TO WHAT WAS INTENDED: IT WOULD MILITATE AGAINST EFFICIENT DAIRY FARMING AND AN EFFICIERT DAIRY INDUSTRY.

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6. ON THE PROPOSAL TO PROVIDE SUBSIDISED MILK FOR SCHOOL CHILDREN HE POINTED OUT THAT BRITISH LOCAL

URDER SEVEN AND THAT ITS RELEVANCE TO THE UK WAS LIMITED THEREFORE. SIMILARLY. THE PROPOSAL TO OAY GRANTS FOR THE ELIMINATIOR OF LEUCOSIS HAD NO RELEVANCE TO THE UK EITHER BECAUSE THE UK WAS FREE OF THE DISEASE. HMG MIGHT, HOWEVER, SUPPORT BOTH THE SCHOOL MILK AND THE DISEASE ERADICATION MEASURES AFTER CAREFUL CONSIDERATION.

7. ON THE PROPOSAL TO OAY A PREMIUM FOR THE NON-MARKETING OF MILK AND MILK PRODUCTS HE SAID THIS SCOPE WAS FAR TOO WIDE FCR THE UK AND HE WOULD PREFER TO SEE A MORE MODEST SCHEME AIMED AT LESSERING PRODUCER RETURNS.

8. IN ESSERCE. THE MINISTER'S REMARKS BOIL DOWN TO SAYING THAT THE ONLY LONG TERM SOLUTION WAS TO SET PRICES AT LOWER LEVELS IN REAL TERMS. OTHER MEASURES SHOULD NOT SUBSTITUTE FOR A SENSIBLE LORG TERM PRESE-T POLICY.

9. SILKIN ALSO DEALT WITH THE SHEEP MEAT PROPOSALS. HE SAID THE UK IS THE LARGEST PRODUCER, CONSUMER ARD IMPORTER OF SHEEPMEAT IN THE COMMUNITY AND IT SEEMED ELEMENTARY TO SAFEGUARD THE UK'S OWN INTEREST. TO DISMANTLE THE EXISTING FRENCH SYSTEM OF RATIONAL IMPORT ARRANGEMENTS WITHOUTT SAFEGUARDS FOR THE UK POSITION THE EFFECT OR THE UK WOULD BE ADVERSE. INCREASED EXPORTS OF LAMB FROM THE UK TO FRARCE ALONGSIDE NEW RESTRICTIONS ON FROZEN LAMB IMPORTS FROM NEW ZEALAND WITH INCREASED UK MARKET PRICES HAVE CAUSED CONSUMPTION OF LAMB TO FALL.

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HE SAID THAT HE COULD NOT ACCEPT A CLAUSE THAT WOULD
LEAD TO NEW RESTRICTIONS ON IMPORTS FROM NEW ZEALAND;
IT WAS SAID THE CLAUSE WOULD NEVER BE USED, IF THIS WAS
SO. WHY PUT IT IN?

COMMENT: IR SUMMARY SILKIR'S SPEECH PUTS THE VIEW
THAT IT IS MORE IMPORTART TO CORTAIN FOOD PRICE INFLATION
THAN OBEDIENTLY TO FALL IRTO LINE WITH THE WISHES OF THE
REMAINDER OF THE COMMUNITY. NATIONAL AIDS ARE MORE
AOPROPRIATE FOR THE SAFEGUARDIRG OF THE INTERESTS OF
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BRITISH AGRICULTURAL PRODUCERS THAN A GREEN POURD
DEVALUATIOR. UK HAS IN MANY REGARDS SO FAR BLAYED THE
CAP GAME MORE ACCORDING TO THE RULES THAN SOME OF ITS
PARTNERS. E.G. FRANCE. WHO DO NOT HESITATE TO ACT
UNILATERALLY WHEN AGRICULTURAL PRESSURE GROUPS MAKE A
FUSS. FRENCH PARTICULARLY IMPOSE IMPORT RESTRICTIONS ON
INTRA-COMMUNITV TRADE. E.G. ON POULTRY. WHICH BRAZENLY
FLOUT THE CAP AND SUCCEED IN GETTING AWAY WITH IT.
BRITISH GREEN POUND INTRANSIGENCE IS IR OART AR ASSERTION
THAT UK CAN ALSO LOOK AFTER ITS OWN INTERESTS WITH THE
IMPORTANT PROVISO THAT ON THIS, AT LEAST, NO CAP RULE IS
ACTUALLY BEING BROKEN. ALREADY,FOR EXAMPLE, HMG REACTION
TO DROUGHT WAS TO WAIT AND SEE AND THEM TO MAKE SELECTIVE
ADJUSTMENTS ON MILK AND SHEEP ORICES AND CAPITAL GRANTS
FOR WATER WORKS RATHER THAN TO RUSH IN AND RAISE
FARM PRICES.

FIRST REACTION TO THE OUTCOME OF THE LUXEMBOURG MEETIRG
HIH LIGHTS THE SIZE OF THE DAILY SUBSIDY (1.7 MILLION
POUNDS). THE LATEST FALL I- STERLINQ WILL OPSH MCA'S UP
FROM 37.3 PERCENT THIS WEEK TO OVER 40 PERCERT NEXT WEEK
AND OOSSIBLY 44 OERCENT THE WEEK AFTER. IT ROW REMAINS
TO BE SEEN WHETHER THE UK WILL USE THIS HUGE WINDFALL
FROM THE WORKINGS OF THE CAP TO TRY ARD BRING ABOUT
CHANGES IN THE POLICY. SILKIR'S SPEECH LAST FRIDAY SEEMS
TO INDICATE THAT THE UK WHEN THE DETERMIRATIONS FOR
1977-78 BEGIN WILL RESIST CAP PRICE INCREASES A ND MAY
EVEN PRESS FOR SOME PRICE REDUCTIONS.

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